



Depreciation Policy

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| Policy Area: Accounting & Financial Reporting | Effective Date: 7/1/1995 |
| Policy Sub Area: Capital Assets | Last Revision Date: 7/1/2010 |
| Authority: GASB Codification Section 1400 | Policy Owner/Division: Statewide Accounting |

Policy

The straight-line and units of output methods of depreciation, with an assumed salvage value of zero, are the recommended methods of depreciation. It is also recommended that depreciation for partial periods be computed using either the half-year convention or on the basis of the nearest full month. Straight-line is a time-based method used when the service life of the asset is affected primarily by the passage of time. Units of output should be used when the service life of the asset is affected primarily by the amount the asset is used. See table below for depreciation method guidelines.

Useful Life Ranges:

| Description | Method | Range | |
|--|----------------------------------|-------|------|
| | | Low | High |
| State Highway System | Composite | 50 | 50 |
| General Infrastructure | Straight-line | 10 | 75 |
| Buildings | Straight-line | 10 | 100 |
| Additions/Renovations | Straight-line | 10 | 100 |
| Leasehold Improvements | Straight-line | 5 | 40 |
| Machinery and Equipment | Straight-line or Units of Output | 2 | 30 |
| Automobiles | Straight-line or Units of Output | 2 | 20 |
| Computers | Straight-line or Units of Output | 2 | 20 |
| Art, Other Artifacts and Literature -Depreciable | Straight-line | 2 | 25 |
| Computer Software | Straight-line | 2 | 30 |
| Other Intangible Assets | Straight-line | 2 | 100 |
| Library Books | Expense | 0 | 0 |

Procedures

NA

Accounting Guidance

Depreciation is the allocation of the total acquisition cost of a capital asset over its estimated useful life. Capital asset depreciation should not be recorded at the fund level in the accounts of governmental funds. Depreciation of capital assets accounted for in a proprietary fund should be recorded in the accounts of that fund.

Land, certain land improvements, construction-in-progress, and inexhaustible works of art, historical treasures and similar assets are not depreciated. Land is considered to have an unlimited useful life and its salvage value is unlikely to be less than its acquisition cost. Certain land improvements may be considered to have an unlimited useful life and therefore not be depreciated. An example of a non-depreciable land improvement would include the movement or grading of dirt to prepare the land for its intended use. A non-depreciable land improvement should have permanent benefits.

Straight-line depreciation is calculated by dividing total asset cost by estimated useful life in years. Total asset cost includes purchase price or cost of construction plus any other charges incurred to place the asset in its intended location and condition for use. Donated assets are valued at their fair market value at date of acquisition. The estimated useful life of a depreciable capital asset is the period over which services are expected to be rendered by the asset. An asset's estimated useful life may differ from agency to agency. An agency's maintenance policy will affect the longevity of a depreciable asset. See table above for estimated useful life guidelines. Periodically, the estimated useful lives of depreciable capital assets should be re-evaluated for reasonableness. An estimated useful life is not reasonable if the associated capital asset is near full depreciation but will remain in use significantly longer than originally estimated. The general rule is that **careful** estimates of useful lives that later prove to be incorrect based on new information should be considered changes in estimates. Changes in estimates must be handled prospectively (i.e., restatement of prior years is prohibited). However, estimates of useful lives that are computed incorrectly because of lack of historical useful life experience or failure to use available information should be considered accounting errors. Corrections of errors must be treated as prior period adjustments (i.e., restatements).

Units of output depreciation are calculated by dividing total asset cost by the assets total lifetime number of hours worked or output produced. The calculation of depreciation rate per hour or per output produced is then multiplied by the number of hours used or units produced per period. For example, if a \$100,000 asset has an expected lifetime production of 20,000 units, the depreciation rate is \$5 per unit produced. The \$5 depreciation rate is then multiplied by the units produced in the period to calculate depreciation expense.

Intangible Assets are classified as capital assets. For additional guidance on amortization of intangible assets see the [Intangible Assets Policy](#).

Fully Depreciated Capital Assets

Because depreciation is intended to allocate the cost of a capital asset over its entire useful life, it normally is not appropriate to report assets still in service as fully depreciated. However, because differences may occur between estimated useful lives used for depreciation computations and actual useful lives, agencies may, in limited cases; report capital assets that are fully depreciated, but only if such balances are immaterial. If the balances of fully depreciated capital assets that remain in use are material, the related estimated useful lives should be changed. Buildings are not considered fully depreciated if renovations and improvements have been capitalized as separate assets and the combined amounts (initial costs plus renovations/improvements) are not fully depreciated.

Related Documents (Memos/Forms)

NA

Revision History

| Date | Description |
|------------|-----------------------------|
| 07/01/2010 | Adjusted useful life ranges |
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